

Message Text

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PAGE 01 PARIS 22641 01 OF 04 182338Z
ACTION EUR-12

INFO OCT-01 EA-12 IO-14 ISO-00 TRSE-00 FRB-01 COME-00
LAB-04 AID-05 CEA-01 CIAE-00 EB-08 INR-10 NEA-10
NSAE-00 ICA-20 OPIC-06 SP-02 SIL-01 AGRE-00
OMB-01 SS-15 /123 W
-----081448 190115Z /75

R 181945Z JUL 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 4947
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY ROME
AMEMBASSY TOKYO
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMCONSUL BORDEAUX
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UNCLAS SECTION 01 OF 04 PARIS 22641

USMTN

PARIS PASS OECD

USEEC

PASS TREASURY, FEDERAL RESERVE, COMMERCE, LABOR

E. O. 11652: N/A
TAGS: EALR, EFIN, EGEN, FR
SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

REF: PARIS 21592, JULY 7, 1978

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PAGE 02 PARIS 22641 01 OF 04 182338Z

INTRODUCTION:

THE GENERAL PICTURE THAT EMERGES OF THE FRENCH ECONOMY
IN THIS TWO WEEK PERIOD IS CONFIRMATION OF THE REVIVAL
OF ACTIVITY IN THE FIRST HALF OF THE YEAR BUT THE
EXPECTATION OF SLOW GROWTH FOR THE SECOND HALF.
THERE HAS BEEN A RECENT WEAKENING OF INDUSTRIAL PRODUC-

TION AND EMPLOYMENT, AND MONEY SUPPLY GROWTH IS EXPECTED TO SLACKEN IN THE MONTHS AHEAD.

1. QUARTERLY NATIONAL ACCOUNTS STATISTICS
REFLECT ACCELERATION IN EARLY 1978

WHILE THE FOURTH QUARTER OF 1977 UNDERWENT A CONSIDERABLE DOWNWARD REVISION, THE FIRST QUARTER OF 1978 SHOWED AN INCREASE OF 1.8 PERCENT OVER THE FOURTH QUARTER, A BREAK IN THE STAGNATING LEVEL OF ACTIVITY WHICH HAD LASTED FOR ONE YEAR. THE INCREASE IS PRINCIPALLY DUE TO INDUSTRIAL PRODUCTION, RISING BY 3.5 PERCENT DURING THE QUARTER. EXPORTS ROSE BY 0.5 PERCENT, CONSUMPTION BY HOUSEHOLDS BY 0.8, AND CAPITAL FORMATION BY 1 PERCENT. INSEE COMMENTS THAT THE ABNORMALLY LOW LEVEL OF INVENTORIES TOWARD THE END OF 1977 LED TO A REBUILDING OF INVENTORIES IN THE FIRST QUARTER OF 1978. COPIES OF THE ACCOUNTS ARE BEING POUCHED SEPARATELY.

INDICES (BASE: 1977 10U) CALCULATED AT 1970 PRICES
CORRECTED FOR SEASONAL VARIATIONS

1977	1977	1978
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PAGE 03 PARIS 22641 01 OF 04 182338Z

GDP	100.6	100.3	102.1
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OF WHICH:

INDUSTRIAL VALUE ADDED	101.8	99.2	102.7
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NON-INDUSTRIAL VALUE ADDED	99.8	100.9	101.8
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IMPORTS	100.8	99.8	103.4
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EXPORTS	97.7	103.3	103.8
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CONSUMPTION BY HOUSEHOLDS	99.2	101.4	102.2
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GROSS CAPITAL FORMATION	100.8	99.8	100.8
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2. FURTHER GROWTH EXPECTED TO BE MODERATE

ACCORDING TO INSEE'S SURVEY, CONDUCTED EVERY FOUR MONTHS, DEMAND AND PRODUCTION ROSE RAPIDLY IN THE FIRST HALF OF THIS YEAR. CONSEQUENTLY, UNUSED CAPACITY MARGINS IN INDUSTRY DECLINED TO 19 PERCENT (SEE TABLE BELOW). THE PRODUCTION INCREASE IS CONCENTRATED IN SECTORS PRODUCING CONSUMER AND INTERMEDIATE GOODS WHILE

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PAGE 01 PARIS 22641 02 OF 04 182342Z
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UNCLAS SECTION 02 OF 04 PARIS 22641

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EQUIPMENT GOODS CONTINUE TO BE WEAK. THIS APPLIES TO
DOMESTIC AS WELL AS FOREIGN DEMAND. ONLY "MODERATE
GROWTH" IS NOW EXPECTED IN THE COMING PERIOD.

THE DECLINE IN EMPLOYMENT NOTED IN THE PAST IS EXPECTED
TO CONTINUE. PRICES, AT THE PRODUCTION LEVEL, HAVE BEEN
RISING BY 0.6 PERCENT PER MONTH ON AVERAGE OVER THE PAST
EIGHT MONTHS; AND THEY ARE LIKELY TO RISE FURTHER AT THE
SAME RATE. HOURLY WAGE RATES ROSE BY 2.4 PERCENT FROM
THE BEGINNING OF MARCH TO THE BEGINNING OF JUNE--I.E.,
AT A MONTHLY RATE OF 0.8 PERCENT. THEY ROSE BY ONLY
1.8 PERCENT ACCORDING TO THOSE SURVEYED, OR 0.6 PERCENT
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PAGE 02 PARIS 22641 02 OF 04 182342Z

MONTHLY DURING THE CORRESPONDING PERIOD OF 1977. SOME
SLOWDOWN IN THE INCREASE OF WAGES IS NOW EXPECTED.

PERCENTAGE OF ENTERPRISES WORKING AT FULL CAPACITY

UNUSED CAPACITY MARGINS

JUNE 1975	11	30.6
JUNE 1976	22	19.6
JUNE 1977	23	19.5
MARCH 1978	19	20.0
JUNE 1978	19	19.0

3. INDUSTRIAL PRODUCTION DROPPED IN MAY

THE INDUSTRIAL PRODUCTION INDEX (EXCLUDING BUILDING) DROPPED BY 3 PERCENT IN MAY BELOW THE RELATIVELY HIGH APRIL LEVEL BUT WAS STILL 3 PERCENT ABOVE MAY 1977. INSEE THINKS THAT THE MAY DECLINE MIGHT BE SOMEWHAT FORTUITOUS AS A LARGE NUMBER OF ENTERPRISES EXTENDED THE WEEK-END FROM ASCENSION DAY, THURSDAY, MAY 4, THROUGH SUNDAY, MAY 7, AFTER HAVING RECOVERED THAT FRIDAY BY EXTRA WORK PERFORMED IN APRIL. THIS PHENOMENON IS NOT REFLECTED IN THE CORRECTION FOR SEASONAL VARIATIONS. WHEN SMOOTHED WITH A THREE MONTH MOVING AVERAGE, THE UPWARD TREND CONTINUES.

(1970 = 100)

DECEMBER-JANUARY-FEBRUARY 124
 JANUARY-FEBRUARY-MARCH 126
 FEBRUARY-MARCH-APRIL 128
 UNCLASSIFIED

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PAGE 03 PARIS 22641 02 OF 04 182342Z

MARCH-APRIL-MAY 129

4. ENTERPRISES MODERATELY OPTIMISTIC REGARDING THEIR INVESTMENT IN EQUIPMENT

ACCORDING TO A SURVEY CONDUCTED IN JUNE BY INSEE AT PRIVATE ENTERPRISES, EXCLUDING BUILDING AND PUBLIC WORKS, INVESTMENT IN EQUIPMENT IS LIKELY TO RISE BY 3.5 PERCENT IN VOLUME TERMS IN 1978. THE SURVEY COVERS ABOUT TWO-FIFTHS OF THE TOTAL OF FRENCH NON-FINANCIAL ENTERPRISES. THE INVESTMENT PRINCIPALLY CONCERNS CAPITAL GOODS OF THE MECHANICAL AND ELECTRICAL INDUSTRIES.

LARGEST INCREASES ARE LIKELY IN THE AUTOMOBILE, GLASS AND PETROLEUM INDUSTRIES, WHILE A SHARP DECLINE IS EXPECTED IN THE IRON AND STEEL INDUSTRIES.

THE JUNE SURVEY MORE OR LESS CONFIRMS TRENDS NOTED IN MARCH. HOWEVER, FOOD PROCESSING AND RELATED INDUSTRIES AS WELL AS PRODUCERS OF INTERMEDIARY GOODS REVISED THEIR ESTIMATES UPWARDS, WHILE PRODUCERS OF MECHANICAL CAPITAL GOODS REVISED THEIR ESTIMATES DOWNWARD.

PRELIMINARY INDICATIONS FOR 1979 INDICATE A SOMEWHAT MORE RAPID GROWTH OF THIS TYPE OF INVESTMENT THAN IN 1978 (ABOUT 115 PERCENT IN VALUE TERMS AS COMPARED WITH 12 PERCENT IN 1978), BUT INSEE REMAINS CAUTIOUS ABOUT THE VALIDITY OF THIS DATA.

5. CONTRARY TO NORMAL SEASONAL TRENDS,
UNEMPLOYMENT RISES IN JUNE

UNFILLED REQUESTS FOR JOBS ROSE TO 1,039.3 THOUSAND, FRACTIONALLY UP FROM 1,037.2 IN MAY AND 7-1/2 PERCENT ABOVE LAST YEAR'S 967.7. THE UNEMPLOYMENT RATE NOW
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PAGE 04 PARIS 22641 02 OF 04 182342Z

STANDS AT 5.7 PERCENT, UP FROM 5.5 IN MAY.

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PAGE 01 PARIS 22641 03 OF 04 182343Z
ACTION EUR-12

INFO OCT-01 EA-12 IO-14 ISO-00 TRSE-00 FRB-01 COME-00
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UNCLAS SECTION 03 OF 04 PARIS 22641

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AMONG THOSE LOOKING FOR JOBS, 36 PERCENT ARE LESS THAN 25 YEARS OLD, OF WHICH 12.7 PERCENT ARE MALE AND 23.2 PERCENT FEMALE. THUS THE PROPORTION OF YOUNG WOMEN IS MUCH LARGER THAN IN TOTAL UNEMPLOYMENT WHERE WOMEN COUNT FOR 52.3 PERCENT OF ALL UNEMPLOYED. ACCORDING TO A COMMENT CLOSE TO THE LABOR MINISTRY, A NUMBER OF ENTERPRISES MAY HAVE DELAYED EMPLOYMENT OF THE YOUNG IN MAY AND JUNE PENDING SPECIAL GOF INCENTIVES EFFECTIVE JULY 1 (SEE PARIS 21967 OF 7/11/78).

THE OUTLOOK FOR THE REST OF THE YEAR IS NOT BRIGHT. NEW
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PAGE 02 PARIS 22641 03 OF 04 182343Z

LAYOFFS ARE EXPECTED, PARTICULARLY IN THE SHIPBUILDING INDUSTRIES, TEXTILES, AND STEEL.

6. PRELIMINARY INDICATION REGARDING MONEY SUPPLY

AS EXPLAINED IN THE PREVIOUS REPORT ON FINANCIAL AND ECONOMIC DEVELOPMENTS, DATA ON FRENCH MONEY SUPPLY ARE CONSIDERABLY DELAYED AS THE BANKS' ACCOUNTING SYSTEM FOR ESTABLISHING THOSE STATISTICS IS PRESENTLY UNDERGOING EXTENSIVE MODIFICATIONS.

A RELIABLE COMMERCIAL BANK SOURCE GAVE US THE FOLLOWING OBSERVATIONS ON MONEY SUPPLY DEVELOPMENTS THIS YEAR. UP TO THE END OF MAY, UNTIL THE FIRST GOVERNMENT BOND ISSUE WAS FLOATED, THE RATE OF GROWTH IN MONEY SUPPLY ACCELERATED RAPIDLY; BANKS (EXCEPT FOR THE CREDIT AGRICOLE) REACHED THE CEILING ALLOWED UNDER THE SYSTEM OF CREDIT RESTRICTIONS; THE TREASURY RAN A LARGE DEFICIT, AND THE POST-ELECTORAL REPATRIATION OF FOREIGN EXCHANGE ADDED TO THE DOMESTIC MONEY SUPPLY.

FROM JUNE ON, AND PROBABLY THROUGH THE SECOND SEMESTER, IT IS EXPECTED THAT THIS MOVEMENT WILL BE REVERSED. TWO GOVERNMENT LOANS ALREADY ISSUED, AND OTHERS TO COME, WILL ABSORB LIQUIDITY. THE NET INFLOW OF FOREIGN

EXCHANGE HAS SLOWED DOWN RECENTLY, AND IT WILL PROBABLY CONTINUE AT A SLOWER RATE NOW THAT SPECULATION AFTER THE MARCH ELECTIONS IS UNWINDING.

7. STATE LOAN OVERSUBSCRIBED ON DAY OF ISSUE

THE 2-1/2 BILLION, 15 YEAR GOF LOAN AT 9.80 PERCENT LAUNCHED ON JULY 12 WAS FULLY SUBSCRIBED THE SAME DAY;
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PAGE 03 PARIS 22641 03 OF 04 182343Z

AND SUBSCRIPTION WAS CLOSED AT 3:30 P.M. ECONOMICS MINISTER MONORY EXPRESSED HIS SATISFACTION THAT A LARGE NUMBER OF PRIVATE INDIVIDUALS AS WELL AS INSTITUTIONAL INVESTORS WERE RESPONSIBLE FOR THE ABUNDANCE OF SUBSCRIPTIONS, IN SPITE OF THE UNUSUAL ISSUE DATE JUST BEFORE BASTILLE DAY AND SUMMER VACATIONS.

8. INTEREST RATES STABLE, STOCK PRICES
RESUME UPWARD TREND

MONEY RATES REMAINED PRACTICALLY STABLE BETWEEN 7-1/4 AND 7-1/2 DURING THE REPORTING PERIOD. ON THE PARIS BOURSE AVERAGE STOCK PRICES MOVED UP BY 4 PERCENT IN TWO WEEKS. ACCORDING TO MARKET SOURCE, THIS MOVEMENT PRINCIPALLY REFLECTS FAVORABLE REACTION TO THE BREMEN MEETING AND,

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PAGE 01 PARIS 22641 04 OF 04 182343Z
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UNCLAS SECTION 04 OF 04 PARIS 22641

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TO A LESSER EXTENT, TO THE NEW LAW GIVING INCENTIVES
TO PRIVATE SAVINGS TO FINANCE INDUSTRIAL ENTERPRISES
WHICH WAS FINALLY PROMULGATED ON JULY 14.
TWO NEW MUTUAL FUNDS (BY BNP AND ROTHSCHILD) WERE
RECENTLY SET UP IN EXPECTATION OF THE NEW PROVISIONS.

9. FOREIGN EXCHANGE DEVELOPMENTS

VIS-A-VIS THE FRANC THE DOLLAR DECLINED SOMEWHAT
FOLLOWING THE BREMEN MEETING BUT SUBSEQUENTLY RECOVERED
TO THE SAME LEVEL AS TWO WEEKS AGO--I.E., F4.46/4.47 FOR
\$1; VIS-A-VIS THE DM THE FRANC RATE ALSO IS THE SAME AS
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PAGE 02 PARIS 22641 04 OF 04 182343Z

TWO WEEKS AGO--I.E., F 2.16/2.17 FOR DM 1. THE FRANC/
DM RATE REFLECTS A BELIEF IN THE MARKET THAT THE BREMEN
MONETARY PROPOSALS WILL LINK THE FRANC TO THE
DM IN SOME UNSPECIFIED WAY AND STRENGTHEN IT.

10. OTHER REPORTS SUBMITTED DURING THE REPORTING PERIOD:

TELEGRAMS

PARIS

22313 PRESIDENTIAL INTERVIEW ON EVE OF THE SUMMIT
22115 PRESIDENTIAL INTERVIEW ON EVE OF THE SUMMIT
22062 FRENCH COMMENTARY ON THE MONETARY AGREEMENT
OF THE BREMEN SUMMIT
21692 MIXED CREDITS
21493 IMF AGREEMENT WITH ZAIRE

AIRGRAMS

A-183 FRENCH FOREIGN EXCHANGE HOLDINGS
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